

INTER-OFFICE MEMORANDUM

Office of Accounts and Control

TO: Chief Payroll Officers **DATE:** February 27, 2003
FROM: Lawrence C. Franklin, Jr., State Controller
SUBJECT: W-2 ACCURACY PENALTY

The Internal Revenue Service (IRS) plans to enforce a \$50 per-form penalty for name/social security number mismatches starting with 2002 W-2 forms. The IRS will match each employee's name and social security number on an employer's electronic computer file of W-2's with the IRS files. For each name and social security number that does not match, the employer will have to pay a \$50 penalty.

Employers can avoid this penalty by showing "*reasonable cause*". "*Reasonable cause*" is defined as the employer taking the following actions:

1. Obtaining an employee's name and social security number from a completed and signed W-4 form, Employee's Withholding Allowance Certificate, **and/or**
2. Verifying an employee's name and social security number via the Social Security Administration's Employee Verification Service (EVS).

The Office of Accounts and Control will take both actions.

If an employee does not submit a completed and signed W-4 form prior to the issuance of his/her first payroll check, federal and state income tax withholding will occur as if the employee is SINGLE AND CLAIMING NO WITHHOLDING EXEMPTIONS until the employee submits the W-4 form.

Presently, the Office of Accounts and Control is working with the Office of Library and Information Services to submit employee names and social security numbers via the EVS. The Central Payroll Section within the Office of Accounts and Control will contact you with any name and social security number mismatches as a result of each submission. (*Please be advised that all employee names and social security numbers will be submitted via the EVS for matching.*)

If the EVS reports a mismatch of an employee's name and social security number (even after submitting a W-4 form), federal and state income tax withholding will occur as if the employee is SINGLE AND CLAIMING NO WITHHOLDING EXEMPTIONS until the employee submits a correct W-4 form.